



State of California
Employment Training Panel

Arnold Schwarzenegger, Governor

August 27, 2008

Marie Hamilton
Vice President Corporate Learning
Fair Isaac Corporation
3550 Engineering Drive, #400
Norcross, GA 30092

Dear Ms. Hamilton:

Enclosed is our final audit report relative to the Employment Training Panel Agreement No. ET04-0448 for the period October 6, 2003 through October 5, 2005.

Also enclosed is a demand letter for payment of costs disallowed in the audit report. Payment is due upon receipt of this letter. If you wish to appeal the audit findings, you must follow the procedure specified in Attachment A to the audit report.

We appreciate the courtesy and cooperation extended to our auditor during the audit. If you have any questions, please contact Charles Rufo, Audit Director, at (916) 327-5439.

Sincerely,

Original signed by:

Charles Rufo
Audit Director

Enclosures

cc: Carrollynn Henshaw, V.P. of Administration, National Training Systems, Inc.

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FAIR ISAAC CORPORATION

Agreement No. ET04-0448

Final Audit Report

For The Period

October 6, 2003 through October 5, 2005

Report Published August 27, 2008

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Employment Training Panel
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AUDITOR'S REPORT

Summary

We performed an audit of Fair Isaac Corporation's compliance with Agreement No. ET04-0448, for the period October 6, 2003 through October 5, 2005. Our audit pertained to training costs claimed by the Contractor under this Agreement. Our audit was performed during the period April 16, 2007 through April 17, 2007.

The Employment Training Panel (ETP) reimbursed the Contractor a total of \$181,771. Our audit supported \$173,551 is allowable. The balance of \$8,220 is disallowed and must be returned to ETP. The disallowed costs resulted from 8 trainees who did not meet retrainee eligibility requirements, 1 trainee who was not employed in an occupation specified in the Agreement, and 2 trainees who had ineligible training hours.

AUDITOR'S REPORT (continued)

Background

Fair Isaac Corporation (Fair Isaac) was established in 1956 and is a California-based producer of business analytic software. The company is a leading developer of credit scoring systems. Its international headquarters are located in San Rafael, and it also has other facilities in Emeryville, Irvine, San Jose, and San Diego, as well as offices in other states and nine countries with authorized distributors in thirteen countries.

In order to meet the needs for a skilled workforce in the industry of manufacturing automated credit scoring systems, Fair Isaac proposed to train its employees to use the new Fair Isaac Business Science Suite® software. This analytic software of the company's own invention includes a tool set of new predictive modeling software, new programming skills, and new methods of producing mathematical models. A highly complex part of the software platform, Model Builder, has to be configured for each client. Therefore, this training project provided for Advanced Technology training to provide key staff with new computer skills unique to the industry.

This Agreement allowed Fair Isaac Corporation to receive a maximum reimbursement of \$572,832 for retraining 216 employees. During the Agreement term, the Contractor placed 216 trainees and was reimbursed \$181,771 by ETP.

Objectives, Scope, and Methodology

We performed our audit in accordance with *Government Auditing Standards*, promulgated by the United States General Accounting Office. We did not audit the financial statements of Fair Isaac Corporation. Our audit scope was limited to planning and performing audit procedures to obtain reasonable assurance that Fair Isaac Corporation complied with the terms of the Agreement and the applicable provisions of the California Unemployment Insurance Code.

Accordingly, we reviewed, tested, and analyzed the Contractor's documentation supporting training cost reimbursements. Our audit scope included, but was not limited to, conducting compliance tests to determine whether:

- Trainees were eligible to receive ETP training.
- Training documentation supports that trainees received the training hours reimbursed by ETP and met the minimum training hours identified in the Agreement.
- Trainees were employed continuously full-time for 90 consecutive days after completing training, and the 90-day

AUDITOR'S REPORT (continued)

retention period was completed within the Agreement term.

- Trainees were employed in the occupation for which they were trained and earned the minimum wage required at the end of the 90-day retention period.
- The Contractor's cash receipts agree with ETP cash disbursement records.

As part of our audit, we reviewed and obtained an understanding of the Contractor's management controls as required by *Government Auditing Standards*. The purpose of our review was to determine the nature, timing, and extent of our audit tests of training costs claimed. Our review was limited to the Contractor's procedures for documenting training hours provided and ensuring compliance with all Agreement terms, because it would have been inefficient to evaluate the effectiveness of management controls as a whole.

Conclusion	As summarized in Schedule 1, the Summary of Audit Results, and discussed more fully in the Findings and Recommendations Section of our report, our audit supported \$173,551 of the \$181,771 paid to the Contractor under this Agreement is allowable. The balance of \$8,220 is disallowed and must be returned to ETP.
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Views of Responsible Officials	The audit findings were discussed with John Martin, Corporate Education Manager, at an exit conference held on April 17, 2007, and with Marie Hamilton, Vice President Corporate Learning, via telephone and e-mail on August 21, 2008. The Contractor's response included in Finding No. 1, along with the Auditor's reply was disclosed to Ms. Hamilton in an e-mail dated August 21, 2008. That response was based on statements made to the ETP Auditor by the representatives of Fair Isaac. Ms. Hamilton stated Fair Isaac intended to appeal the audit results but agreed to bypass the draft report and proceed to the final audit report.
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The issuance of your final audit report has been delayed by the audit unit. Therefore, ETP waived the accrual of interest for the disallowed costs beginning August 21, 2007, through the issue date of this final audit report. The interest waiver (adjustment) was \$759.85, which was deducted from the total accrued interest.

Audit Appeal Rights	If you wish to appeal the audit findings, it must be filed in writing with the Panel's Executive Director within 30 days of receipt of this audit report. The proper appeal procedure is specified in Title 22, California Code of Regulations, Section 4450 (attached).
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AUDITOR'S REPORT (continued)

Records

Please note the ETP Agreement, Paragraph 5 a.1., requires you to assure ETP or its representative has the right, "...to examine, reproduce, monitor and audit accounting source payroll documents, and all other records, books, papers, documents or other evidence directly related to the performance of this Agreement by the Contractor... This right will terminate no sooner than four (4) years from the date of termination of the Agreement or three (3) years from the date of the last payment from ETP to the Contractor, or the date of resolution of appeals, audits, or litigation, whichever is later."

Charles Rufo
Audit Director

Fieldwork Completion Date: April 17, 2007

This report is a matter of public record and its distribution is not limited. The report is intended for use in conjunction with the administration of ETP Agreement No. ET04-0448 and should not be used for any other purpose.

SCHEDULE 1 – Summary of Audit Results

FAIR ISAAC CORPORATION

AGREEMENT NO. ET04-0448

FOR THE PERIOD

OCTOBER 6, 2003 THROUGH OCTOBER 5, 2005

	<u>Amount</u>	<u>Reference*</u>
Training Costs Paid By ETP	<u>\$ 181,771</u>	
Disallowed Costs:		
Ineligible Trainees	7,190	Finding No. 1
Ineligible Trainee Occupation	760	Finding No. 2
Ineligible Training Hours	<u>270</u>	Finding No. 3
Total Costs Disallowed	<u>\$ 8,220</u>	
Training Costs Allowed	<u><u>\$ 173,551</u></u>	

* See Findings and Recommendations Section.

FINDINGS AND RECOMMENDATIONS

FINDING NO. 1 – Ineligible Trainees Employment information provided by Fair Isaac Corporation (Fair Isaac) shows eight trainees were ineligible to receive training. The trainees did not meet employment requirements prior to the start date of training. We have disallowed \$7,190 in training costs claimed for these trainees.

Exhibit A, paragraph 3 of the Agreement between ETP and Fair Isaac requires that trainees be employed full-time by the Contractor or a participating employer for at least 90 days before the trainee begins training. Otherwise, to be eligible a trainee must have been employed at least 20 hours per week for at least 90 days by an eligible employer during the 180-day period preceding the trainee's hire date with the current employer.

Fair Isaac records indicate that Trainee Nos. 1, 3, 4, 6, 7, 8, 10 and 11 were hired less than 90 days prior to their start of training. Employment Development Department base wage information shows they were not employed full-time for at least 20 hours per week for at least 90 of the 180 days preceding the hire date. The chart below shows their job number, hire date, date training began, and number of days employed prior to their training start date.

Trainee No.	Job No.	Hire Date	Date Training Began	Number of Days Employed
1	1	07/19/04	07/20/04	1
3	1	06/21/04	07/06/04	15
4	1	06/28/04	07/14/04	16
6	1	11/01/04	11/10/04	9
7	1	11/01/04	11/10/04	9
8	1	06/14/04	07/20/04	36
10	1	04/26/04	04/29/04	3
11	1	11/18/04	01/19/05	62

Recommendation Fair Isaac must return \$7,190 to ETP. In the future, the Contractor should ensure that all retrainees meet eligibility requirements before beginning training.

FINDINGS AND RECOMMENDATIONS (continued)

Contractor's
Response

Contractor states that ETP's enrollment system previously would initiate an "ETP 83" process for trainees employed less than 90 days at the start of training. Therefore, ETP's system change (during the Agreement) had a direct impact on why these trainees were not dropped during the enrollment process. Contractor believes that ETP should make an exception to allow these trainees due to ETP's system change.

ETP Auditor
Comments

We continue to disallow these trainees. The Contractor did not submit any additional documentation that would dispute the factual accuracy of this finding. Each of the eight trainees was enrolled on November 15, 2005 (after the Agreement termination date). Effective October 4, 2005, ETP modified its enrollment database process to no longer initiate an automatic certification process check (ETP 83) for trainees employed less than 90 days at the start of training. Despite this change, it remains the Contractor's responsibility to request eligibility certification for trainees hired less than 90 days prior to their start of training. Thus, the eight trainees will remain disallowed.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 2 – Ineligible Trainee Occupations Fair Isaac claimed reimbursement for one trainee who was not employed after training in one of the occupations specified in the agreement. We have disallowed \$790 in training costs claimed for this trainee.

Exhibit A, paragraph 7 of the Agreement states, “Employment for each trainee shall be in the occupations listed in [the Agreement]....” The occupations identified were for Director, Manager, Engineer, Lead, and Administrative Specialist, none of the occupations listed were for policy making executive staff.

Paragraph 5 of the Agreement states: “No senior level managers or executive staff who set company policy are included in ETP-funded training under this Agreement.”

Fair Isaac reported that Trainee No. 2 was employed as a Vice-President, which is equivalent to a senior level manager or executive staff. Thus, this trainee is not eligible for ETP reimbursement.

Recommendation Fair Isaac must return \$790 to ETP. In the future, the Contractor should ensure that trainees receiving training are employed in the occupations specified in the Agreement before claiming reimbursement from ETP.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 3 – Ineligible Training Hours Fair Isaac's training documentation did not support the reported training hours for two trainees. Thus, we disallowed \$270 (13.5 hours x \$20 per hour) in training costs claimed for these trainees.

Exhibit A, paragraph 7 of the Agreement requires that each trainee must be employed for a period of at least ninety (90) consecutive days immediately following the completion of training.

Exhibit A, paragraph 3 of the Agreement requires that trainees be employed full-time by the Contractor for at least 90 days before the trainee begins training.

Trainee No. 5 had a reported training end date of March 18, 2004 and a reported retention period from March 19, 2004 through June 17, 2004. However, employment records provided by Fair Isaac indicate Trainee No. 5 was terminated from employment on May 22, 2004, during the required retention period. Instead of denying the trainee from placement, ETP adjusted the retention period to January 31, 2004, through April 30, 2004, so the trainee could still meet post-training requirements. This adjustment caused the last reported date of training on March 18, 2004 to be ineligible. Therefore, 6 hours of training was found to be ineligible.

Trainee No. 9 had a reported training start date of October 5, 2004. However, employment records provided by Fair Isaac indicate Trainee No. 9 was hired on September 13, 2004. Therefore, 7.5 training hours completed on October 5, 2004 was ineligible for reimbursement since it took place during the trainee's first 90 days of employment.

Recommendation Fair Isaac must return \$270 to ETP. In the future, the Contractor should ensure that trainees attend training hours eligible for reimbursement as required by the Agreement, prior to claiming reimbursement from ETP.

ATTACHMENT A - Appeal Process

4450. Appeal Process.

- (a) An interested person may appeal any final adverse decision made on behalf of the Panel where said decision is communicated in writing. Appeals must be submitted in writing to the Executive Director at the Employment Training Panel in Sacramento.
- (b) There are two levels of appeal before the Panel. The first level must be exhausted before proceeding to the second.
 - (1) The first level of appeal is to the Executive Director, and must be submitted within 30 days of receipt of the final adverse decision. This appeal will not be accepted by the Executive Director unless it includes a statement setting forth the issues and facts in dispute. Any documents or other writings that support the appeal should be forwarded with this statement. The Executive Director will issue a written determination within 60 days of receiving said appeal.
 - (2) The second level of appeal is to the Panel, and must be submitted within 10 days of receipt of the Executive Director's determination. This appeal should include a statement setting forth the appellant's argument as to why that determination should be reversed by the Panel, and forwarding any supporting documents or other writings that were not provided at the first level of appeal to the Executive Director. If the Panel accepts the appeal and chooses to conduct a hearing, it may accept sworn witness testimony on the record.
 - (A) The Panel must take one of the following actions within 45 days of receipt of a second-level appeal:
 - (1) Refuse to hear the matter, giving the appellant written reasons for the denial; or
 - (2) Conduct a hearing on a regularly-scheduled meeting date; or
 - (3) Delegate the authority to conduct a hearing to a subcommittee of one or more Panel members, or to an Administrative Law Judge with the Office of Administrative Hearings.
 - (B) The Panel or its designee may take action to adopt any of the administrative adjudication provisions of the Administrative Procedures Act at Government Code Section 11370 *et seq.*, for the purpose of formulating and issuing its decision. Said action may take place at the hearing, or in preliminary proceedings.
 - (C) Upon completion of the hearing, the record will be closed and the Panel will issue a final ruling. The ruling may be based on a recommendation from the hearing designee. The ruling shall be issued in a writing served simultaneously on the appellant and ETP, within 60 days of the record closure.
- (c) The time limits specified above may be adjusted or extended by the Executive Director or the Panel Chairman for good cause, pertinent to the level of appeal.
- (d) Following receipt of the Panel's ruling, the appellant may petition for judicial review in Superior Court pursuant to Code of Civil Procedure Section 1094.5. This petition must be filed within 60 days from receipt of the Panel's ruling.

Authority: Section 10205(m), Unemployment Insurance Code; Section 11410.40, Government Code.

Reference: Sections 10205(k), 10207, Unemployment Insurance Code.

Effective: April 15, 1995

Amended: December 30, 2006